



LETTER FROM THE DIRECTOR

We are pleased to present the 2004 annual report of the Washington State Department of Financial Institutions. Highlighted throughout the following pages are accomplishments of 146 dedicated state workers.

DFI's reputation of a hard working, consumer friendly state agency is a direct testament to the contributions of our highly competent and qualified staff. Our employees provide regulation, consumer protection, and related services through five divisions: Administration, Banks, Consumer Services, Credit Unions and Securities.

The department continues making program enhancements to provide better customer service, quicker response times to changes in our regulatory environment, and show value to the citizens of our state.

The businesses we regulate are vital to Washington's economy. We are committed to monitoring the financial service industry in a fair and balanced manner, while protecting consumers who count on ethical behavior from those businesses.

We look forward to continued service to Washington State's businesses and citizens.

Scott Jarvis
Director

TABLE OF CONTENTS

Department Overview	p.1
2004 Highlights	p.3
National Board and Committee Participation	p.5
Communications and Outreach	p.6
Division of Administration	p.11
Division of Banks	p.12
Division of Consumer Services	p.14
Division of Credit Unions	p.17
Division of Securities	p.19

MISSION: DFI REGULATES OUR STATE'S FINANCIAL SERVICES INDUSTRY TO PROTECT THE PUBLIC, PROMOTE ECONOMIC VITALITY, AND PRESERVE INTEGRITY IN THE MARKETPLACE.

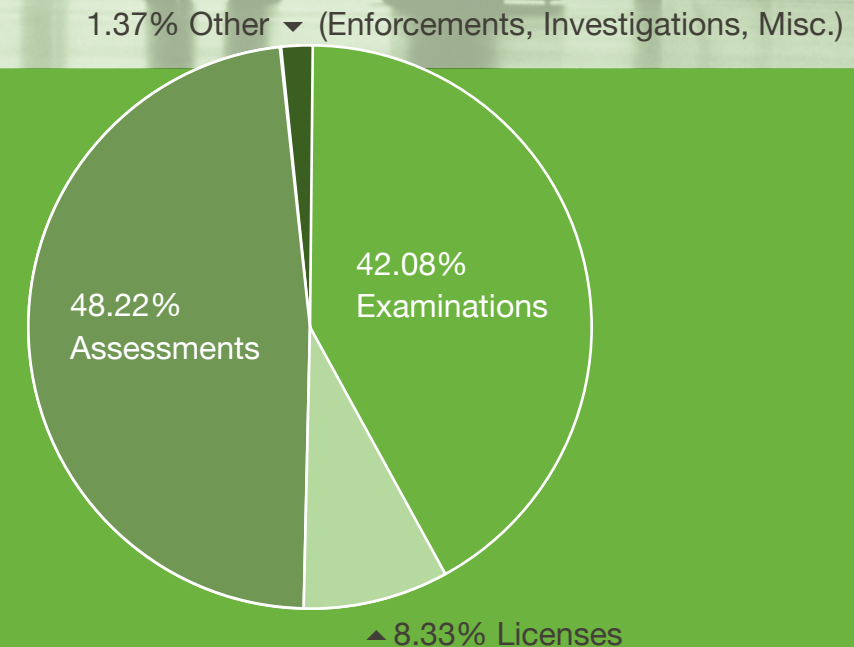
Department Overview

The Department of Financial Institutions (DFI) was established in October 1993 by Chapter 43.320 RCW. Its historic roots date back to the early 1900s with the Division of Banking in 1907 and the Division of Securities in the 1930s.

DFI is composed of five divisions: Administration, Banks, Consumer Services, Credit Unions, and Securities. DFI is self-supported primarily by fees and assessments paid by regulated entities. With regard to securities revenues, the department retains 13 percent of these revenues to fund its activities. By statute, the remaining 87 percent is transferred to the General Fund to support general government operations. DFI receives no federal or General Fund monies to support its operations.

DFI Facts at a Glance

Total budgeted staff: **146.5**
Staff composition by gender: **51.9% female, 48.1% male**
Total biennial agency budget: 2003-2005 Biennium **\$30,031,563**
Racial diversity of workforce: **29%**
Number of complaints resolved: **1,517**
Total fines and penalties collected: **\$53,622.00**
Number of enforcement actions: **170**
Depository institutions and trust companies combined assets: **Over \$87 billion**
Amount of loans made by payday lenders: **\$1,179,056,532**
Total assets of state chartered credit unions: **\$16.89 billion**
Amount of ordered restitution to consumers: **\$21,195,949**



THE DEPARTMENT CONDUCTS FOUR CORE PROGRAM ACTIVITIES:

Chartering, Licensing and Registration

DFI evaluates and approves bank and credit union applications, mergers, conversions, branches, and corporate governance changes. The department also conducts licensing, registration and exemption activities for the following financial entities and persons: broker-dealers, broker-dealer representatives, investment advisers, investment adviser representatives, securities issuers, franchises, franchise brokers, business opportunities, escrow agents, escrow officers, mortgage brokers, check cashers and sellers (payday lenders), money transmitters, currency exchangers, and consumer loan companies.

Examinations

The department performs several types of examinations. The three primary examinations are: (1) Compliance and for cause examinations of securities, mortgage brokers, mortgage broker-dealers, investment advisers, escrow agents, escrow officers, debenture companies, check cashers and sellers (payday lenders), consumer loan companies, money transmitters, and currency exchangers; (2) safety and soundness examinations of banks, credit unions, debenture companies, money transmitters, trust companies, Small Business Association (SBA) lenders and industrial development corporations; and (3) information system examinations of banks and credit unions.

Enforcement

The department conducts various types of supervisory, surveillance and enforcement activities to detect and take corrective action for violations of the regulatory and anti-fraud statutes applicable to financial institutions. Activities include: complaint processing, investigation, and appropriate action against securities issuers and brokers, investment advisers, mortgage brokers, check cashers and sellers (payday lenders), money transmitters, currency exchangers, consumer loan companies and escrow agents; and examination of banks and credit unions. DFI also provide assistance and coordination to other law enforcement agencies and prosecutors – including testimony during trials.

Education and Public Outreach

DFI conducts consumer education and outreach activities, and also provides technical assistance and regulatory guidance to licensees.

DEPARTMENT OF FINANCIAL INSTITUTIONS 2004 HIGHLIGHTS

The year was notable for many initiatives in consumer protection and financial institution regulation. In addition, the department administered technical and procedural changes that benefited DFI staff and Washington consumers.

Overdraft Protection Guidance

DFI became one of the first states in the nation to take a comprehensive approach to overdraft protection and offer guidance on administering overdraft protection programs. The project began with an examination questionnaire to state chartered banks, thrifts, and credit unions. Results were compiled and presented to the Legislature and draft guidance was shared with the industry and consumer groups for comment. DFI released "Guidance and Best Practices for Overdraft Protection Programs" in February. As state and federal regulators developed their own guidance on overdraft protection programs, they routinely referenced the action taken by Washington State.

DFI Financial Literacy Study Completed

The department commissioned a financial literacy study to gain greater understanding of the behaviors, attitudes, and experiences of consumers in Washington State who have entered into financial transactions with mortgage lenders. The project provided a unique opportunity to compare the opinions, attitudes, and levels of financial knowledge between consumers in our state who were victims of predatory lending and a randomly selected general population pool of Washington citizens. The final report was the result of a series of focus groups, telephone surveys, and an extensive literature review. The study is available on the department's web site and has proven to be invaluable as DFI develops an approach to improving the financial literacy of Washington consumers.

Congressional Fly-In

The Agency Director and the Division of Banks Director participated in the Conference of State Bank Supervisors' (CSBS) Annual Congressional Fly-In. The event included meetings with Federal Reserve Board Chairman Alan Greenspan, House Financial Services Committee Chairman Michael Oxley, Representative Barney Frank (House Financial Services Committee Ranking Member), and Senator Paul Sarbanes, Minority Ranking Member of the Senate Banking Committee. They also met with Congressman Inslee, Senator Cantwell, and Senator Murray. The focus of the fly-in was preemption by the Office of the Comptroller of the Currency.

State-Federal Regulatory Agencies Agreement

In May, state and federal bank regulatory agencies reached agreement on 12 recommended practices designed to achieve a more coordinated approach to the supervision of state-chartered banks. The recommended practices incorporate suggestions from state and federal banking agencies that continue to work together implementing the principles in the Nationwide State-Federal Supervisory Agreement first adopted in 1996. The working group was co-chaired by the Division of Banks Director, Dave Kroeger, and included representatives from the Federal Reserve and the Federal Deposit Insurance Corporation.



Payday Lending Report

DFI developed one of the nation's first overviews of the payday lending industry for policy makers. The study captured detailed transaction information about four large Washington payday loan companies. These companies represent 55% of the payday lending volume for 2003. The report contained the following information:

- **Payday Loan Analysis:** the average payday loan amount and the average loan fee amount for the four companies sampled.
- **Average Length of Payday Loan Term:** the number of loans made for specific lending time periods in increments of days, and the average number of days for a payday loan in 2003.
- **Borrowing Frequency:** how many times individual borrowers obtained loans during the calendar year.
- **Short-Term Loan Cost Comparison:** illustrates loan products available to consumers.

CU Director Named Among Industry's Most Influential

Linda Jekel, Director of the Division of Credit Unions, was named one of the industry's ten key leaders by trade magazine- *Credit Union Times*.

NASCUS Accreditation

The Division of Credit Unions received a five-year re-accreditation from the National Association of State Credit Union Supervisors (NASCUS) after a week long examination by the NASCUS Performance Standards Committee. The examination process included scrutiny in the areas of administration/finance, personnel, training, examination, supervision, and legislation.

Washington Mutual Bank

On December 20, 2004, Washington Mutual Bank completed its conversion from a Washington State savings bank into a federal savings bank. Washington Mutual was the division's largest regulated bank with assets in excess of \$28 billion. The fiscal impact of losing Washington Mutual Bank will be approximately \$313,000 in reduced assessment revenues and an additional undetermined amount in miscellaneous examination and filing fees.

Financial Literacy Public Private Partnership (FLPPP)

The Director of Credit Unions represented DFI at the first committee meeting of the FLPPP. The committee was formed by substitute House Bill 2455 to adopt a definition of financial literacy and identify strategies to increase the financial literacy among Washington's public school students.

Money Transmitter/Currency Exchanger Licenses Granted

DFI assumed licensing responsibility of a new financial services provider - Money Transmitters/Currency Exchangers. The first licenses were granted in 2004. In preparation, DFI held meetings to help Money Transmitters better understand federal and state requirements. DFI joined with U.S. Customs and the Secret Service to provide information regarding the "know your customer" requirements of Money Transmitters. The effort was aimed at helping licensees comply with the U.S.A. Patriot Act.

e-Exam Pilot Program

On December 6, 2004, the Division of Banks participated in an e-Exam test pilot organized by the Federal Deposit Insurance Corporation (FDIC). The examiners were testing the feasibility of using imaged data and other materials to conduct off-site examinations.

DEPARTMENT OF FINANCIAL INSTITUTIONS 2004 HIGHLIGHTS CONTD.

DFI Improves Licensing Turnaround

The Division of Consumer Services Licensing Unit initiated an expedited license application review process in mid-2004. This included quickly identifying incomplete or inadequate applications and returning them to the applicants with the deficiencies identified. In years past, the unit engaged in a complex and time consuming exchange with applicants in an effort to complete applications submitted with incomplete data. Combined with an increasing volume of license applications, the old method resulted in delays and backlogs in application review, and slow license issue times. Under the new approach, licensing turnaround times dramatically improved to under a week for most license types.

Record Number of Enforcement Actions / Criminal Referrals

The Division of Securities instituted over 70 enforcement actions for unlicensed activity, fraud, dishonest and unethical practices, bookkeeping and records violations. The division referred seven cases to the U.S. Attorney's Office and the King County Prosecutor's Fraud Division. The division's efforts resulted in the federal conviction of three defendants in one of Washington State's largest stock fraud cases.

NATIONAL BOARD AND COMMITTEE PARTICIPATION

Chuck Cross – President, Board of Directors, AARMR

The American Association of Residential Mortgage Regulators (AARMR) promotes the exchange of information between executives and employees of the various states who administrate and regulate residential mortgage lending, servicing and brokering. www.aarmr.org

Linda Jekel – Chair, Board of Directors, NASCUS

The National Association of State Credit Union Supervisors (NASCUS) represents state-chartered credit unions. NASCUS mission is to advocate for a strong and innovative state credit union system that benefits state credit union regulatory agencies and state credit unions. www.nascus.org

Dave Kroeger – Chair, State-Federal Task Force through CSBS; Member, CSBS Legislative Committee; Member, Strategic Planning Committee

The Conference of State Bank Supervisors (CSBS) brings all state banking departments together to present a unified voice in Washington DC. It is considered a clearinghouse for ideas to solve common problems faced by state bank regulators. CSBS also works to encourage competitive chartering options, efficient and effective supervision, and lower cost regulation for all banks. www.csbs.org

Mike Stevenson – Member, Board of Directors, NW3C

The National White Collar Crime Center (NW3C) provides support for the prevention, investigation, and prosecution of high tech and economic crime to more than 1,700 federal, state, and local law enforcement agencies. NW3C operates through grants from the United States Department of Justice. www.nw3c.org



COMMUNICATIONS AND CONSUMER OUTREACH

Scott Kinney, Director of Communications

Numerous studies suggest that informed consumers make better financial decisions and can protect themselves from fraud. DFI's ability to prevent fraud is strengthened when enforcement efforts are enhanced with effective consumer education and outreach programs.

In years past, DFI's staff educated approximately 10,000 consumers annually through presentations at senior centers and high schools. In 2003, DFI's website received 8-9,000 unique visitors each month.

In 2004, DFI took a proactive approach to raising consumer awareness of the department and creating tools to help consumers avoid financial pitfalls. DFI's outreach program made contact with several million Washington consumers through a number of communication and marketing efforts. The department participated in over 125 fairs, conventions, and special events throughout the year. DFI's website was redesigned and reached an average of 17,000 unique visitors a month. In addition, the communications team developed several partnerships and programs that were the first of their kind in the nation.

DFI launched a public service announcement (PSA) campaign to raise consumer awareness of predatory lending practices. The department's PSA campaign included statewide television, radio, billboards, and bus panel public service announcements encouraging consumers to borrow wisely, and to visit the website for more information. Two Washington consumers volunteered their time to help DFI's effort: Seattle jazz singer, Ernestine Anderson and predatory lending victim, Jeanie Luna. The department received an average of 57 consumer telephone calls per day during the campaign.



Predatory Lending PSA

Campaign Launch: July 2004 – Four weeks

Target Audience: Adults Age 25-49

Results: Television: average 2.6 million household viewings per week

Seattle

Spokane

Radio: reached more than 286,000 consumers per week

Seattle

Spokane

Tri-Cities

Billboard: 96,400 viewings per day

Fife

Bus panels: 3 million gross impressions

Seattle

Pierce County

Predatory lending webpage views

4,841



COMMUNICATIONS AND CONSUMER OUTREACH CONTD.

In August, DFI launched a campaign to educate consumers about other options to using payday loans for long-term cash needs. The public service announcements included a radio commercial, billboards, and public transit panels. In August and September, over 3,000 visitors viewed DFI's website pages devoted to payday lending. The public education campaign ran statewide.

Payday Lending PSA

Phase 1: Campaign Launch: August 2004 – Four weeks

Target Audience: Adults Age 35-55

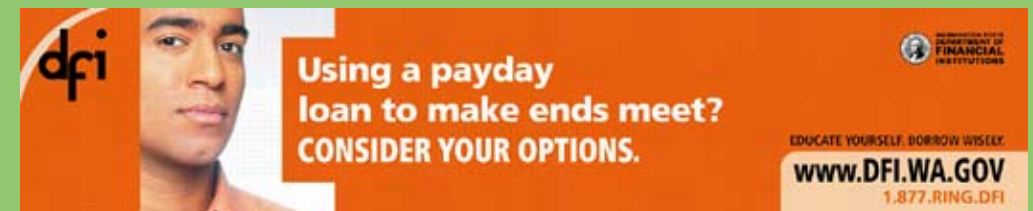
Results:	Radio: reached more than 212,000 consumers an average of 4 times per week		
	Seattle	Spokane	Tri-Cities
	Billboard: 96,400 viewings per day Fife		
	Bus panels: 2.6 million gross impressions		
	Pierce County	Bangor/Keyport/ Bremerton	Spokane
	Payday lending webpage views 2,878		

Payday Lending PSA

Phase 2: Campaign Launch: October 2004 – Four weeks

Target Audience: Men Age 25-34

Results:	Radio: reached more than 308,000 consumers an average of 3 times per week		
	Seattle	Spokane	Tri-Cities
	Billboard: 96,400 viewings per day Fife		
	Bus panels: 5.3 million gross impressions		
	Pierce County	Bangor/Keyport/ Bremerton	Spokane
	Payday lending webpage views 1,069		



COMMUNICATIONS AND CONSUMER OUTREACH CONTD.

Investment Fraud PSA Campaign

In November, DFI launched a campaign to educate consumers about investment fraud. The public service announcements included a radio commercial, billboards, and public transit panels. The public education campaign ran through the first week of December in the Spokane and Seattle markets. Over 1,200 consumers visited the department's investor fraud website pages.

Campaign Launch: November 2004 – Four weeks

Target Audience: Adults Age 55+

Results: Radio: reached more than 259,000 consumers an average of 4.75 times per week

Seattle

Spokane

Billboard: 96,400 viewings per day

Fife

Bus panels: 9.8 million gross impressions

Pierce County

King County

Snohomish
County

Investment Fraud webpage views

1,230



Personal Finance Curriculum Pilot Project

DFI introduced Money Savvy Kids Basic Personal Finance Curriculum to 50 second-grade classrooms across the state. The curriculum is an eight-week program teaching students the essentials of money management – saving, spending, donating, and investing.

DFI worked with Money Savvy Generation to recruit and train teachers prior to the 2004 school year. In addition to introducing the essentials of money management, the pilot included pre and post testing to measure the impact on children and their families. Funding for the pilot project was awarded to DFI through the Attorney General's Cy Pres grant. The project was one of the first of its kind to be sponsored by a state financial regulator.

Community Outreach

To increase awareness of DFI's services, the department developed partnerships with state and federal agencies, and private industry associations such as: AARP, the Attorney General's Office, Better Business Bureau, Consumer Protection Roundtable, Commission on African-American Affairs, Department of Labor and Industries, Federal Trade Commission, Hispanic Chamber of Commerce, Hispanic Roundtable, and the Seattle/King County Coalition for Responsible Lending.

With these partnerships, DFI participated in several programs, trade shows, and presentations across the state to raise the awareness of financial fraud. The partnerships maximized the department's ability to reach a larger number of consumers.

COMMUNICATIONS AND CONSUMER OUTREACH CONTD.

Fraud Fighter Task Force

The department helped train over 2,170 seniors through involvement in the Fraud Fighter Taskforce. The taskforce held all-day training sessions throughout the state to help senior's fraud. In turn, the seniors shared the information within their communities. The program was sponsored by AARP and the Attorney General's Office.

Latino Youth Summit

In the fall, DFI co-sponsored the Latino Youth Summit in partnership with the Hispanic Roundtable and Hispanic Women's Network. The event was developed to educate Hispanic youth about the importance of financial responsibility and to encourage them to stay in school. Over 100 students attended and 25 agencies participated.

Home Shows

DFI and the Department of Labor and Industries partnered to increase their outreach efforts at home shows across the state. DFI provided prospective home buyers with information about choosing mortgages wisely and protecting themselves from fraudulent and deceptive loan practices.

Financial Literacy for Women

DFI partnered with Washington Women's Employment & Education (WWEE), a non-profit agency. WWEE provides job readiness training and support services to low-income residents of Pierce and King Counties. Quarterly, DFI presented financial literacy workshops.

Life Smarts

The department sponsored the 2004 Life Smarts competition in Washington State. Life Smarts is a quiz bowl contest for high school students sponsored by the National Consumer League. Throughout the year, high school teams competed in a series of online contests testing their life skill knowledge- including questions about financial literacy. Teams with qualifying scores were invited to a state quiz bowl competition held in Seattle. After a series of elimination contests, the winning school was selected to represent Washington State at the national competition.

Financial Services Presentations

On several occasions, Linda Jekel, Director of the Division of Credit Unions, presented an overview of Washington's experience with charter conversions. Joe Vincent, General Legal Counsel, presented recent legislation on "Check 21" to the Financial Managers Advisory Council. He presented "Federal OCC Preemption" to the American Bar Association and the Seattle/King County Coalition for Responsible Lending. In addition, he introduced DFI's payday lending and predatory lending campaigns at the Washington Statewide Legal Services Conference in conjunction with the Northwest Justice Project.

Predatory Lending Presentations

Chuck Cross, Director of DFI's Division of Consumer Services, gave presentations to over 650 regulators, industry professionals, and trade group representatives in Seattle, Tacoma, Bellevue, and Annapolis, Maryland. The presentations highlighted the predatory lending study commissioned by DFI that measured the financial skills of Washington consumers and identified characteristics of consumers vulnerable to predatory lending practices.

COMMUNICATIONS AND CONSUMER OUTREACH CONTD.

Media Relations

Establishing DFI as an information resource for local and national reporters was a goal in 2004. The department regularly proposed stories about administrative actions, consumer outreach initiatives, and issues such as predatory and payday lending. The staff was routinely called to provide background information -- handling hundreds of calls from local and national reporters. DFI received regular coverage in publications such as the Puget Sound Business Journal, Seattle Times, Tacoma News Tribune, and Spokesman Review. DFI received national attention in publications such as the New York Times, Wall Street Journal, Credit Union Times, and the American Banker.

Guide to Home Loans CD-ROM

DFI developed an interactive CD-ROM outlining the basics of the home loan process. The CD covers topics such as: the basic steps to securing a home loan, an explanation of disclosure documents, tips on avoiding predatory loans, reverse mortgages, and a glossary

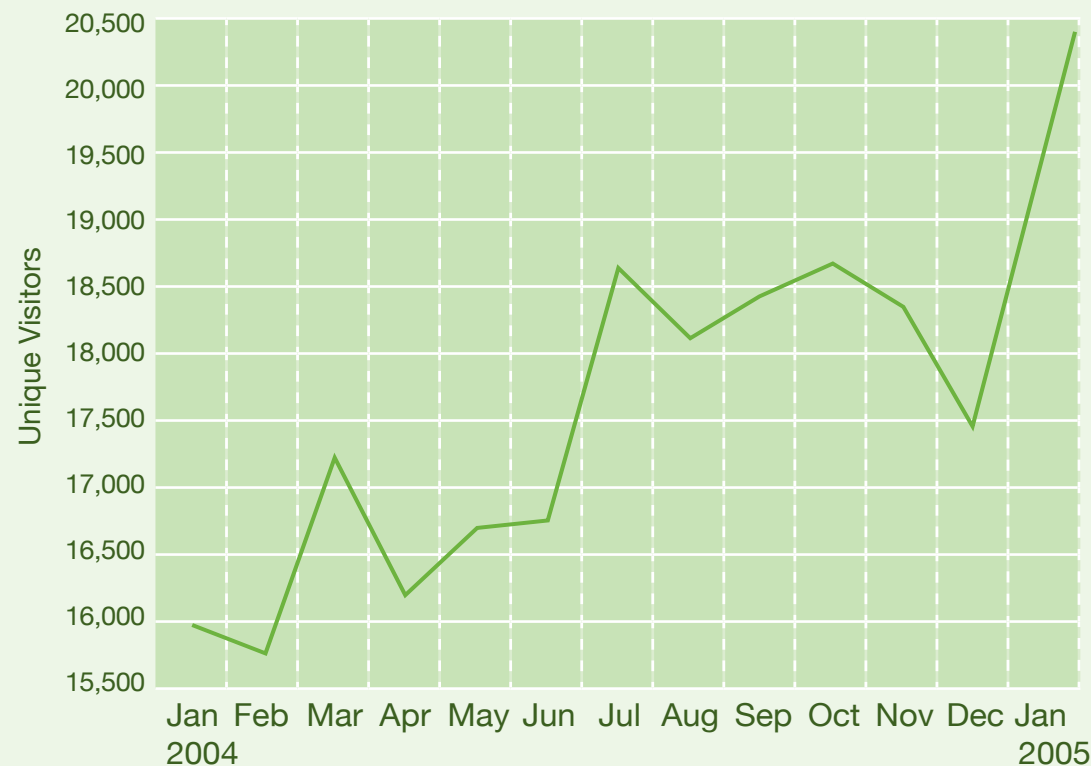


of common mortgage terms. It also features checklists and samples of various forms, mortgage calculators and web links to several helpful resources.

The CD was promoted during July's television and radio predatory lending campaign. In the first month, over 1,200 consumers placed orders. In addition, the CD was distributed at fairs, speaking engagements, first time home buyers seminars, DFI's website, and by real estate and mortgage brokers. The project was the first of its kind created by a state financial regulator.

DFI Launches New Website

In 2004, the department launched a redesigned, consumer-focused website. DFI reorganized the content to make it easier for consumers and licensees to find information. Other enhancements included: a detailed site map, improved search functions, page print features, feedback and survey forms, plus an expanded consumer education section. The site also incorporated DFI's new logo and created consistency with the department's new publications and PSA campaigns. The chart measures the number of unique visitors who accessed the site in 2004. Awareness grew throughout the year. The largest increases, beginning with July, correlated to the launch of DFI's four PSA campaigns.



DIVISION OF ADMINISTRATION

Gloria Papiez, Director of Administration

The Division of Administration performs functions in the areas of legislation, communications, budget accounting, information technology and support, human resources, and facilities. In addition, the division manages the department's quality program.

Division Accomplishments for 2004

- **New Wireless Network:** To provide greater connectivity and flexibility, DFI installed a secure wireless network in the Tumwater office. Staff can now carry tablet PC's to meetings throughout the building and maintain access to the network.
- **New Network Based Fax System:** The agency implemented a new network based fax system that allows DFI staff to easily send and receive faxes from their PC's.
- **Business Continuity/Disaster Recovery Improvements:** The agency took major steps to improve its ability to recover technology operations following a disaster. Servers running simultaneously for critical applications were placed in separate locations. In the event of a disaster, DFI will be able to run from either location.



DIVISION OF BANKS

Dave Kroeger, Director of Banks

The Division of Banks was organized in 1907 and has responsibility for supervising commercial banks, trust companies, savings banks, savings and loan associations, and alien banks incorporated under Washington State laws.

The division works directly with the institutions it regulates through examination and supervisory activity in an effort to assure the public of adequate services from the institutions. It seeks to ensure the protection of the interests of depositors, borrowers, shareholders, and consumers.

In 2004, Washington State chartered banks had good earnings, strong loan and deposit growth, and improving asset quality. Chartering activity slowed, but mergers and acquisitions picked up. The division chartered two new commercial banks, and one state chartered credit union converted to a state chartered mutual savings bank. The division's fiscal condition remains sound. Emphasis continued to be placed on training and development of employees, and remaining responsive to changes in the financial services markets.

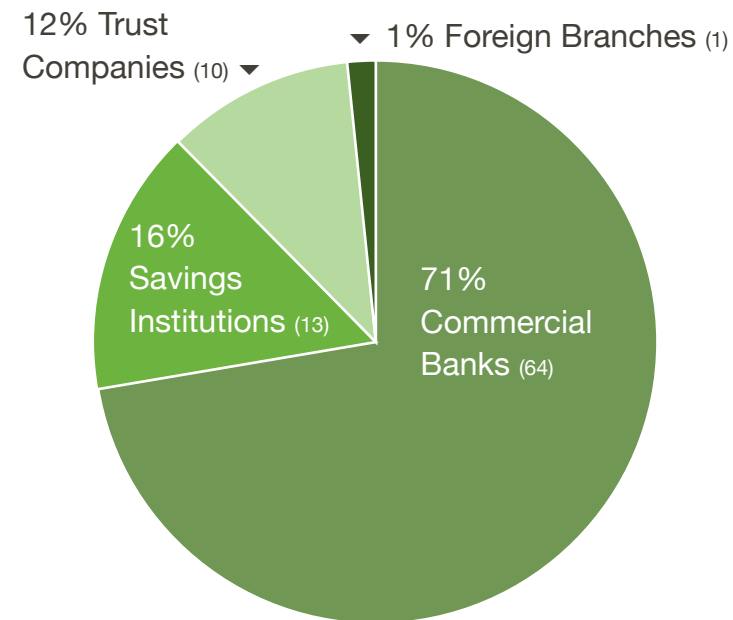
Statutes Administered by the Division of Banks

Chapter 30 RCW	Banks and Trust Companies
Chapter 31.24 RCW	Industrial Development Corporations
Chapter 31.35 RCW	Agricultural Lenders, Loan Guaranty Program
Chapter 31.40 RCW	Federally Guaranteed Small Business Loans
Chapter 32 RCW	Mutual Savings Banks
Chapter 33 RCW	Savings and Loan Associations

Industry Facts at a Glance

Commercial Banks	64	
Savings Institutions	13	
Trust Companies	10	
Branches of foreign banks	1	
Total assets of banks and trust companies		\$87 billion

Regulated Institutions by Charter Type



Key Statistics	2001	2002	2003	2004
Number of State Chartered Commercial Banks	62	66	65	64
Number of State Chartered Savings Institutions	16	16	15	13

DIVISION OF BANKS CONTD.

Division Milestones and Accomplishments

- The division chartered two new commercial banks in 2004.
- The division completed scheduled examinations within their statutory time frame with assistance from the Federal Deposit Insurance Corporation and the Federal Reserve Board.

New Banks and Trust Companies

- First Sound Bank, Seattle (July 2004)
- Thurston First Bank, Olympia (October 2004)

Charter Conversions

- 1st Security Bank of Washington, Mountlake Terrace, converted from a state-chartered credit union to a state-chartered mutual savings bank. (April 2004)
- Heritage Savings Bank, Olympia, converted from a state-chartered stock savings bank to a state-chartered commercial bank. (September 2004)

Mergers and Liquidations

- Bank Northwest, Bellingham, merged into Bank of the Pacific, Aberdeen. (February 2004)
- Pacific Northwest Bank, Seattle, merged into Wells Fargo Bank, N.A., Sioux Falls, South Dakota. (April 2004)
- Safeco Trust Company, Seattle, Washington, merged into Mellon Trust of Washington, Seattle. (April 2004)

- Issaquah Bank, Issaquah, merged into Cascade Bank, Everett. (June 2004)
- EverTrust Bank, Everett, merged into KeyBank National Association, Cleveland, Ohio. (November 2004)
- HCB Bancorp, Inc., Raymond, merged into Security State Corporation, Centralia, Washington. (December 2004)
- Harbor Community Bank, Raymond, merged into Security State Bank, Centralia. (December 2004)

Name Changes

- Laird Norton Trust Company, Seattle, changed its name to Laird Norton Tyee Trust Company. (April 2004)
- Heritage Savings Bank, Olympia, changed its name to Heritage Bank. (September 2004)

DIVISION OF CONSUMER SERVICES

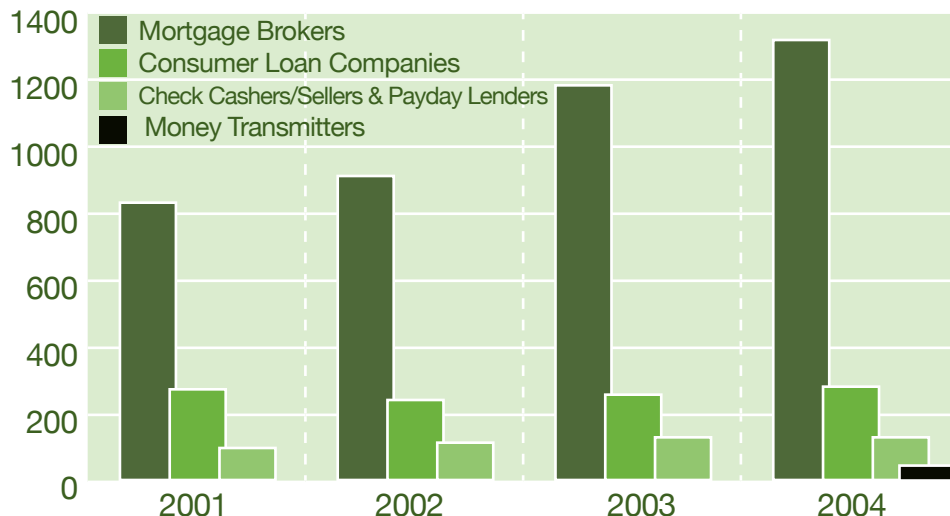
Chuck Cross, Director of Consumer Services

The Division of Consumer Services regulates the business activities of consumer loan companies, mortgage brokers, check cashers and sellers and payday lenders, money transmitters and currency exchangers. The division is also responsible for administration of prosecution funds under the Residential Mortgage Lending Fraud Account.

The division reviews applications for non-depository financial institution licenses issued under the division's regulatory authority. Applicants meeting qualifications and found to be without negative regulatory or criminal backgrounds are typically granted licenses. A core group of financial examiners review the books and records of licensees for compliance with applicable state and federal law.

The division's enforcement unit investigates complaints and violations of the law including administrative and criminal violations, files charges against violators, conducts settlement negotiations and assists prosecutors in the conviction of violations and crimes.

Regulated Entities by Group



Statutes Administered by the Division of Consumer Services

Chapter 31.04 RCW	Consumer Loan Act
Chapter 31.45 RCW	Check Cashers and Sellers Act
Chapter 19.146 RCW	Mortgage Broker Practices Act
Chapter 19.230 RCW	Uniform Money Services Act
Chapter 36.22/43.320 RCW	Mortgage Fraud Prosecution Account

Industry Facts at a Glance

Mortgage Broker Licenses	1316
Mortgage Broker Branch Office Licenses	787
Consumer Loan Company Licenses	295
Consumer Loan Company Branch Office Licenses	966
Money Transmitter and Currency Exchange Offices	60
Money Transmitter Delegates	3,818
Check Casher Company Licenses*	144
Check Casher Branch Office Licenses	539
Check Seller Company Licenses*	8
Check Seller Branch Office Licenses	5
Payday Lender Endorsement Licenses*	125
Payday Lender Endorsement Branch Office Licenses	465

* Licensing requirements result in duplication among Check Casher, Check Seller, and Payday Lender numbers. See pages 15-16 for a detailed representation of each category.

Division Milestones and Accomplishments

- The first Money Transmitters/Currency Exchanger licenses were granted in 2004. This new program came to the division at the end of 2003.
- In 2004 the Division initiated an expedited license application review process. License application review times were dramatically reduced when a policy of rejecting and returning incomplete or inadequate applications to the sender was implemented.
- The division developed a reporting process to provide policy makers with an overview of the payday lending industry.

DIVISION OF CONSUMER SERVICES CONTD.

Money Transmitter Services*	2004
Companies	60
Delegates	3,818
Consumer Complaints	13
Volume	\$14,625,861,401

*Licensing program began October 2003

Mortgage Brokers	2001	2002	2003	2004
Companies	839	933	1,192	1,316
Branch Offices	350	441	629	787
Consumer Complaints	185	295	402	439

Consumer Loan Companies	2001	2002	2003	2004
Companies	287	254	270	295
Branch Offices	617	720	811	966
Consumer Refunds	\$213,784.77	\$1,229,552.40	\$123,844	\$116,633
Consumer Complaints	195	333	359	232
RE* Loans	59,836	71,743	86,315	108,887
Total Dollars in RE* Loans	\$2,270,449,440	\$5,137,363,495	\$9,913,792,697	\$12,922,974,147
Total Non-Real Estate Loans	94,833	123,030	99,067	120,695
Total Dollars in Non-Real Estate Loans	\$586,636,588	\$635,135,460	\$1,274,691,429.17	\$741,913,841.51

*Refers to real estate loans that use borrower's home as security for the loan

Check Cashers	2001	2002	2003	2004
Companies	110	121	139	144
Branch Offices	365	392	542	539
Consumer Complaints	0	0	1	6
Checks Cashed During Period	1,830,307	6,454,950	2,612,526	3,018,756
Dollar Amount of Checks Cashed During Period	\$263,592,037	\$133,239,667	\$226,641,820	\$979,252,570

DIVISION OF CONSUMER SERVICES CONTD.

Check Sellers	2001	2002	2003	2004
Companies	8	8	9	8
Branch Offices	8	7	8	5
Consumer Complaints	1	0	1	7
Checks Sold During Period*	1,426,531	550,329**	1,158,438	1,021,215
Dollar Amount of Checks Sold During Period*	\$263,592,037	\$133,239,667	\$226,641,820	\$177,896,173

*Includes checks sold as an agent of exempt company

**Decrease due to change in money order reporting requirements

Payday Lenders	2001	2002	2003	2004
Companies	96	110	124	125
Branch Offices	286	317	378	465
Consumer Complaints	3	6	8	82
Small Loans Made During Period	2,186,333	2,337,359	2,983,477	3,297,012
Total Amount of Small Loans Made During Period	\$739,540,654	\$873,339,989	\$1,069,695,069	\$1,238,488,278

\$ of Small Loans Made by Payday Lenders



Enforcement Statistics	2001	2002	2003	2004
Complaints	481	842	1,025	947
Charges & Orders Issued	22	18	52	123
Investigations Opened	18	43	29	111
Investigations Closed	18	104	93	64

(Includes complaints filed against non-licensees)

DIVISION OF CREDIT UNIONS

Linda Jekel, Director of Credit Unions

The Division of Credit Unions was created in 1993. Credit unions are nonprofit, cooperative associations organized to promote thrift among their members and create a source of credit for them at fair and reasonable rates.

The division examines credit unions at least every 18 months for unsafe and unsound practices and violations of statutes and rules. A variety of examination and supervision tools are used. In addition, the division processes applications from state credit unions such as merger and conversion applications. The division also works with consumers regarding complaints against state credit unions.

Washington consolidated chartered credit unions prospered in 2004. Washington credit unions into fewer numbers due to competitive pressures from other financial service providers (such as banks, mortgage brokers, and consumer loan companies). A similar trend evident nationally in the credit union industry.

Washington's credit unions are healthy, with strong net worth for future growth and loss reserves. Net worth levels increased approximately 6.94 percent. Due to better marketing, credit union membership continued to grow supporting and strengthening the credit union movement and resulting in more loans and deposits. Total loans grew 12.35 percent to \$11.86 billion, and total shares and deposits grew 3.49 percent to \$14.62 billion.

Statutes Administered by the Division of Credit Unions

Chapter 31.12 RCW	Washington State Credit Union Act
Chapter 31.13 RCW	Corporate Credit Union Act

Industry Facts at a Glance

Number of state chartered credit unions	79
Total assets of state chartered credit unions	\$16.89 billion
Total state chartered credit union members	1,898,363

Division Milestones and Accomplishments

- On February 28, 2004, the Division of Credit Unions published the agency's Overdraft Protection Guidance as Bulletin B-04-03.
- During 2004, the Director of Credit Unions worked closely with the newly elected officials of Columbia Credit Union.
- On April 21, 2004, the Division of Credit Unions and NCUA jointly provided a webinar to discuss the impact of Asset Liability Management with credit union management.
- On April 28, 2004, the Director of Credit Unions and Program Manager presented emerging regulatory issues to the Small Credit Union CEO Roundtable.
- In June 2004, the Division of Credit Unions was reaccredited for an additional two years by the National Association of State Chartered Credit Union Supervisors.
- Beginning in October 2004, the Director worked with a Washington Credit Union League task force to develop model policies for certain corporate governance issues.

New Credit Union Charters

No new credit unions charters were issued in 2004.

Charter Conversions

- Washington's Credit Union converted to a Washington state chartered mutual savings bank
- Spokane Catholic Credit Union converted to a federal chartered credit union
- People's Community Credit Union converted to a federal chartered credit union

DIVISION OF CREDIT UNIONS CONTD.

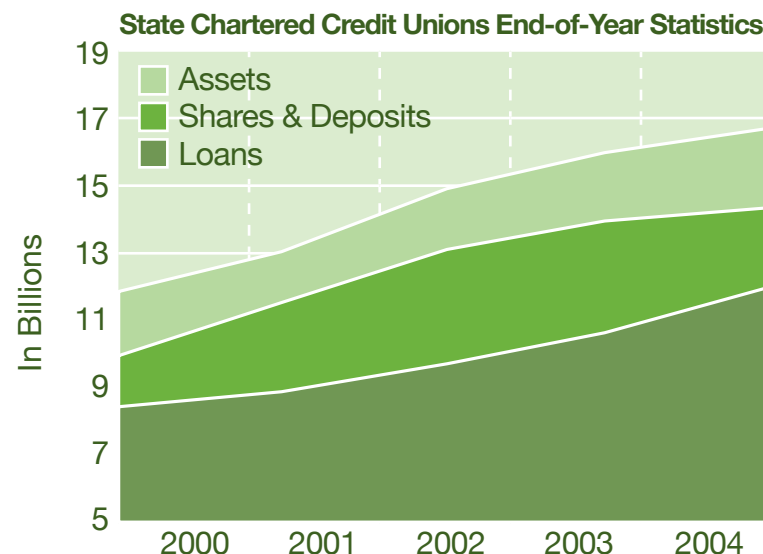
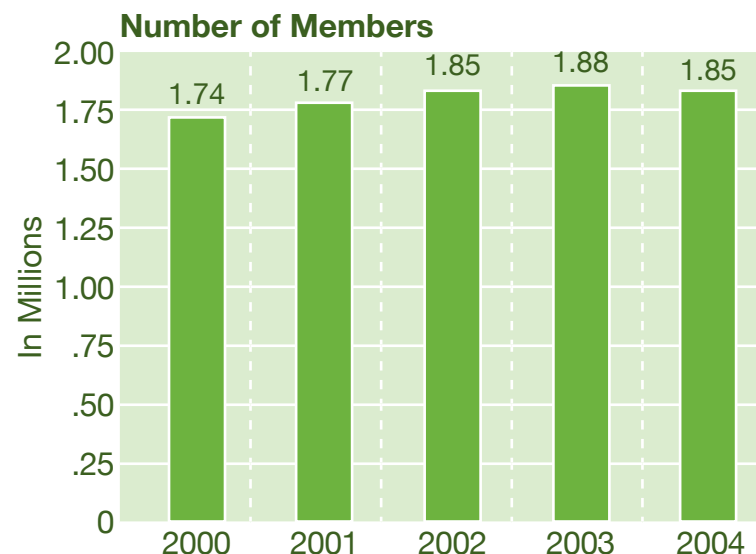
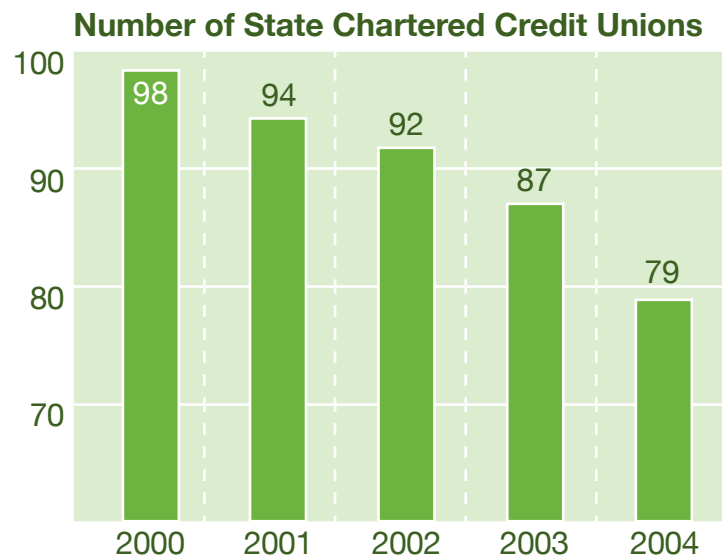
Mergers

- Power Tech Federal Credit Union merged with Twin County Credit Union
- Mountain View Credit Union merged with Horizon Credit Union
- Pierce County Federal Credit Union merged with Sound Credit Union
- Unitarian Universalist Federal Credit Union merged with Generations Credit Union
- State Highway #6 Credit Union merged with Numerica Credit Union
- Port Gardner Bay Credit Union merged with Northwest Plus Credit Union
- Apple Valley Credit Union merged with GESA Credit Union
- PEDCO Credit Union merged with Numerica Credit Union
- King County Medical Society Federal Credit Union merged with Watermark Credit Union
- Coeur D'Alene Teachers Federal Credit Union merged with Numerica Credit Union
- Columbia Lighting Federal Credit Union merged with Inland Empire Trades Credit Union

Name Changes

- Valley Medical Center Credit Union changed its name to ValleyTrust Credit Union

- Scott Employees Credit Union changed its name to Mill Town Credit Union
- Clark County School Employees Credit Union changed its name to iQ Credit Union
- Spokane Postal Credit Union changed its name to Progressions Credit Union
- Evergreen Postal Credit Union changed its name to Community 1st Credit Union
- Telco Credit Union changed its name to PrimeSource Credit Union



Michael Stevenson, Director

The Division of Securities regulates the offer and sale of investments and escrow services to Washington State residents. This is accomplished using a variety of regulatory and enforcement tools- including registration requirements for securities, franchise and business opportunity offerings. The division also licenses and examines securities broker-dealers, investment advisers, and escrow agents and officers.

The division provides technical assistance to small businesses, responds to consumer complaints, undertakes investigations based upon complaints and undercover work, and brings appropriate administrative, civil and criminal cases for prosecution. Over 100,000 individuals and firms provided securities investments and advice to our citizens. More than \$507 billion of securities products were offered to Washington investors in 2004.

The division works directly with the entities it regulates through examinations and market surveillance activity in an effort to assure the public of adequate protection for their investments. A total of 78 enforcement actions were taken this year, and the division assisted in the preparation of seven criminal cases. The division was also actively engaged in providing consumer education presentations and distributing basic personal finance and investor educational materials.

Statutes Administered by the Division of Securities

Chapter 18.44 RCW	Escrow Agent Registration Act
Chapter 19.100 RCW	Franchise Act
Chapter 19.110 RCW	Business Opportunity Act
Chapter 21.20 RCW	Securities Act
Chapter 21.30 RCW	Commodities Act

Industry Facts at a Glance

Registered Securities Salespersons	101,834
Registered Securities Broker-Dealers	2,072
Branch Offices of Broker-Dealers	2,285
Regulated Investment Advisers	1,471
Investment Adviser Representatives	6,358
Registered Franchises	872
Registered Escrow Agents	200
Registered Escrow Officers	334

Division Milestones and Accomplishments

- In early 2004, the Securities Division completed a field survey of most of the escrow agents doing business in Washington. Using the results of this survey, the Securities Division developed a risk rating system for escrow agents to use in setting priorities for examinations. This system allows the division to use its examination resources in the most effective way to protect the public.
- On May 17, 2004, a Seattle federal court jury returned guilty verdicts in the trial of three Znetix defendants: Larry Beaman, Harvey Kuiken, and Michael Culp. Znetix was one of the largest fraud cases ever in the Pacific Northwest. The division worked with the Federal Bureau of Investigation, the Internal Revenue Service, and the United States Attorneys' Office over a number of years on the Znetix investigation. Two staff members testified at the trial. In addition to the convictions of Beaman, Kuiken, and Culp, another Znetix defendant pleaded guilty and six were sentenced.
- In July and September 2004, two defendants, Barbara Edgemon and Lee Tusberg, pleaded guilty in Spokane's federal court for conspiring to commit securities fraud. The division worked with the Federal Bureau of Investigation and the United States Attorneys' Office to investigate the case. Edgemon and Tusberg sold more than \$1,500,000 in unregistered investments to 35 investors.

DIVISION OF SECURITIES CONTD.

- On October 27, 2004, the division entered a statement of charges against 15 securities salespersons of the now defunct broker-dealer Metropolitan Investment Securities, Inc. (MIS). The division alleged that respondents made unsuitable recommendations of securities offered by Metropolitan Mortgage and Securities Co., Inc. (“Metropolitan”) and Summit Securities, Inc. (“Summit”) to Pacific Northwest investors who were seeking low risk investments to sustain them in their retirement years, thereby improperly concentrating the limited assets of these investors in Metropolitan and Summit. The division also alleged that some of the respondents misled investors about the risks of these securities and falsified account information in order to secure approval for sales to investors that would have otherwise been prohibited by MIS. The respondents were afforded a right to a hearing on the charges.
- On December 21, 2004, a revised plea agreement was filed in Tacoma’s federal court regarding a case that the Securities Division investigated. In the agreement, Neil Adkins agreed to reenter his guilty pleas to nineteen previously filed charges that included securities fraud. Adkins also agreed to provide \$571,715 in restitution to 19 victims for conduct not included in prior charges. Adkins sold notes in companies he controlled to investors, most of whom were elderly persons to whom Adkins had previously sold insurance products or trusts. The revised plea agreement was entered in connection with agreements with prosecuting attorneys in a number of Washington counties, including King County. The prosecutors agreed not to bring action against Adkins in connection with his sale of investments in notes and deeds of trust. The agreements were contingent on Adkins’s agreement to pay the additional restitution and to a sentencing recommendation of 52 months.

Securities	2001	2002	2003	2004
Dollar Amount of Securities Permits, Notifications & Exemptions Authorized	\$489,215,823,523	\$579,056,623,456	\$519,368,524,783	\$507,503,462,029
Registered Securities Broker-Dealers	2,124	2,104	2,106	2,072
Registered Investment Advisers	416	424	522	403
Investment Adviser Notice Filers	894	940	956	1,068
Registered Securities Salespersons	101,783	97,982	97,609	101,834
Registered Investment Adviser Representatives	5,167	5,450	6,082	6,358
Branch Offices of Broker-Dealers	2,158	2,138	2,125	2,285
Active Enforcement Cases	121	132	115	149
Enforcement Actions	71	84	88	72

DIVISION OF SECURITIES STATISTICS

Registration and Licensing Activity Totals for 2004

Registrations, Exemptions & Notifications	New	Renew	Amend
Investment Companies (Mutual Funds)	1,370	13,313	9,678
Small Business Filings (SB-2s)	2	2	2
Other Coordination Filings	75	27	62
Qualifications	28	5	6
SCOR (Small Company Offering Registration)	0	0	0
Franchises	206	633	262
Exemptions	1,767	0	0
Options	13	0	0
Franchise Exemptions	21	80	0
Business Opportunities	23	11	9
Total	3,505	14,071	10,019

Registration and Licensing Activity Totals for 2004

Firms & Entities	New	Renew
Securities Broker-Dealers	153	2,072
Investment Advisers	238	1,471
Franchise Brokers	85	107
Escrow Agents	22	193

Registration and Licensing Activity Totals for 2004

Representatives & Salespersons*	New	Renew
Investment Adviser Representatives	1,618	6,358
Intrastate Securities Salespersons	13	26
Agents of Issuers	10	6
Securities Salespersons	30,565	101,834
Salespersons with Disclosure History	3,427	0
Escrow Officers	31	293
Total	35,664	108,517

*This workload data does not include information on registrations or licenses that terminate or fail to renew during the year.

DIVISION OF SECURITIES STATISTICS CONTD.

Franchises	2001	2002	2003	2004
Registered Franchises	689	689	777	872
Registered Franchise Brokers	74	74	86	139
Active Enforcement Cases	12	12	12	16
Enforcement Actions	10	10	10	5

Escrow	2001	2002	2003	2004
Registered Escrow Offices			204	200
Registered Escrow Officers			347	334
Active Enforcement Cases			12	17
Enforcement Actions			6	11

Business Opportunities	2001	2002	2003	2004
Registered Business Opportunities	40	37	30	33
Active Enforcement Cases	28	17	9	14
Enforcement Actions	11	13	10	7

Commodities	2001	2002	2003	2004
Active Enforcement Cases	1	3	2	2
Enforcement Actions	2	1	1	0

ENFORCEMENT STATISTICS

Examination Statistics	2001	2002	2003	2004
Broker-Dealer Exams Completed	76	157	131	67
Investment Adviser Exams Completed	45	77	88	60
Mortgage Broker-Dealer & Debenture Company Exams Completed	12	7	5	4
Escrow Agent Exams Completed	0	0	0	30
Total	133	241	224	161

ENFORCEMENT STATISTICS CONTD.

Enforcement Statistics	2001	2002	2003	2004
Complaints Received	490	496	492	597
Orders Issued	74	110	115	78
Warning Letters Issued	50	61	98	142
Cases Opened	94	116	180	74
Cases in Process	162	187	222	307
Cases Closed	118	213	155	159
Subpoenas Issued	343	375	230	221
Criminal Referrals	3	10	8	7
Criminal Charges	3	8	8	8
Criminal Convictions	3	5	7	7
Criminal Sentencing	3	2	5	7

Enforcement Statistics	Types of Orders Ordered in 2004				
Securities	Statement of Charges	Summary Cease & Desist or Suspension	Final Cease & Desist or Revocation	Consent Order	Total
Issuers	4	12	5	10	31
Broker Dealers & Investment Advisers	3	5	5	9	22
Franchises	0	0	0	5	5
Business Opportunities	0	3	2	3	8
Escrow	3	3	0	6	12
Commodities	0	0	0	0	0
Total Actions	10	23	12	33	78